



GOVERNOR'S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE MINUTES

Tuesday, August 28, 2012

1:30 PM

1700 W. Washington, Governor's 2nd Floor Conference Room
Phoenix, Arizona 85007

A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on August 28, 2012 in the 2nd Floor Conference Room, 1700 West Washington, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

Members Present

Michael Hunter (Chair)	Linda Stanfield
John Olsen	Keely Hitt
Miguel Teposte	Lynne Herndon
Tom Belshe	Vince Perez
Kevin McCarthy	Senator John McComish
Steve Barela	Representative Rick Gray

Members Absent

No members were absent.

Others Present

Lorna Romero, Governor's Office	Patrick Irvine, Fennemore Craig
Jennifer Solis, Department of Revenue	Dennis Hoffman, L. William Seidman Research Institute
	Craig McPike, Snell & Wilmer

1. Call to Order

Michael Hunter called the meeting to order at 1:35 p.m.

2. Approve Previous Meeting Minutes

Senator McComish made a motion to approve the minutes from the past four TPT Task Force meetings.

Kevin McCarthy seconded the motion.

The Task Force unanimously approved the minutes.

3. Reports from Working Groups

a) State and Local Standardization – Patrick Irvine

Patrick Irvine, the State and Local Standardization Working Group Chair, stated the working group met on August 7, 2012 and discussed the following issues:

- Differences between cities
- Differences between state and cities
- Administrative and audit practices
- Licensing standardization issues

Mr. Irvine stated the State and Local Standardization Working Group will meet September 4, 2012 at 1:30 p.m. at the Arizona League of Cities and Towns. Future working group meetings will discuss the following issues:

- Best practices from other states that could help Arizona
- The most challenging differences between state and city tax codes
- Standardizing the Model City Tax Code and removing options

b) Online Retail – Dennis Hoffman

Dennis Hoffman, the Online Retail Working Group Chair, stated the working group met on August 14, 2012 at 1:30 p.m. at the Arizona League of Cities and Town. He commented that the group is focused on the issue of distortions that in economics create a sub optimal level of output for an economy. The working group heard from the following perspectives:

- Hotel industry regarding the disparities between brick and mortar travel agents versus online booking companies
- Department of Revenue
- League of Cities and Towns
- Arizona Retailers Association
- Dan Court from Elliot D. Pollack regarding measures of the economic impact of distortions created by online retail activities

Mr. Hoffman stated the Online Retail Working Group will meet September 10, 2012 at 1:30 p.m. at the Arizona League of Cities and Towns. Future working group meetings will discuss the following issues:

- Hotel industry
- Simplification of taxability regarding cloud computing and digital products
- Recommendations from the League of Cities and Towns
- Administrative costs of businesses trying to comply with tax law
- Sourcing shifts in jurisdictions

Mr. McCarthy commented that Christie Comanita's presentation noted that even if the simplest federal bill to comply with passed, a single point of contact and a single base will still be required.

Tom Belshe responded there seems to be different ways to define a single point of administration.

c) Contracting – Craig McPike

Craig McPike, the Contracting Working Group Chair, stated that the working group met on August 21, 2012 at 1:30 p.m. at the Arizona League of Cities and Towns. The focus of the working group is on the Arizona state and local tax scheme for business activities of contractors under the four following categories: civil, commercial, residential and service. The working group heard from the following perspectives:

- Christie Comanita from the Department of Revenue regarding the current state law

- Lee Grafstrom from the League of Cities and Towns regarding the Model City Tax Code and the differences between city and state codes
- Barb Dickerson from Deloitte Tax LLP regarding the history of tax law for contractors
- Elaine Smith from the Department of Revenue regarding the history and current status of revenue sharing

The following are the key issues on which the working group focused:

- Complexity of compliance, especially for small contractors
- Differences in interpretation of deduction provisions
- Ease of “gaming” the system
- The cities’ speculative builder tax
- Materials-based tax

Mr. McPike stated the Contracting Working Group will meet September 18, 2012 at 1:30 p.m. at the Arizona League of Cities and Towns. The goals of this meeting will be to determine the core concerns of the Department of Revenue, the counties and the cities in regards to a potential materials-based tax and to determine the concerns for the industry if the current system is maintained.

Mr. McCarthy commented that if the goal is to hold people harmless then the task force should pack up and go home because that will not be possible to accomplish and should not be the end goal. He continued that businesses are dealing with an overly burdensome system.

4. Quality Education and Jobs Initiative (Prop 204) Update

Mr. Hunter stated that the Quality Education and Jobs Initiative will be on the ballot and will affect future sales tax reform efforts. During the TPT Task Force meeting on September 25th there will be presentations from the opponents and proponents to discuss the impact the proposed initiative would have on the tax base.

Mr. Hunter reaffirmed that the Governor opposes the initiative. Mr. Hunter continued that there is no agreement from anyone who reads the initiative on how the dollars are allocated and encouraged everyone to read the amended section in Title 42. The Task Force will need to be well versed on this subsection and how it will affect their work. He stated there are two interpretations of Title 42. One says it freezes the current sales tax base and the other says the freeze only applies to the sales tax base for the increased portion, thus creating two bases. Mr. Hunter continued that if this initiative goes into effect, the Department of Revenue could have a lot of power with its rulings for the simple fact that the taxpayers will not be able to change statute. He stated he is hoping to have a robust discussion in September.

Mr. McCarthy stated he has been on the circuit talking about Prop 204 with the proponents. The Supreme Court has decided that it is two sales tax bases. Mr. McCarthy continued that the business community would never think the Department of Revenue would abuse its power but the Department of Revenue would be the final arbiter. He stated that the fact that no one could approach members of the Legislature about an interpretation of statute is scary.

Vince Perez thanked Mr. McCarthy and stated that in the Department of Revenue’s quick review of Prop 204, the Department agrees with the interpretation of two tax bases.

Mr. Hunter stated that with Prop 100 there was an early conversation with the stakeholders affected by revenue sharing. He asked Mr. Belshe if his Board took a position on the initiative.

Mr. Belshe responded that the League of Cities and Towns did vote to oppose the initiative primarily because the permanent one cent sales tax would not contribute to revenue sharing.

5. Call to the Public

No members of the public signed in to speak to the agenda.

6. Adjournment

Mr. Hunter adjourned the meeting at 2:27 p.m.